



STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of

AMERICAN LIBERTY INSURANCE COMPANY

of

Provo, Utah



as of

December 31, 2009

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September 27, 2010

Honorable Neal T. Gooch, Commissioner
Utah Insurance Department
3110 State Office Building
Salt Lake City, Utah 84114

Honorable Christina Urias, Director
Secretary, Western Zone, NAIC
Arizona Department of Insurance
2910 North 44th Street, Suite 210
Phoenix, Arizona 85018-7269

Honorable Alfred W. Gross, Commissioner
Chair, Financial Condition (E) Committee, NAIC
Virginia State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
PO Box 1157
Richmond, Virginia 23218

Pursuant to your instructions and in compliance with statutory requirements, an examination, as of December 31, 2009, has been made of the financial condition and business affairs of:

AMERICAN LIBERTY INSURANCE COMPANY
Provo, Utah

hereinafter referred to in this report as the Company, and the following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered by Examination

The current examination covers the period from January 1, 2007 through December 31, 2009, including any material transactions and/or events occurring subsequent to the examination date noted during the course of the examination.

Examination Procedure Employed

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. The Handbook requires that we plan and perform the examination to evaluate the financial

condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with statutory accounting principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

Status of Prior Examination Findings

The last examination was completed as of December 31, 2006. There are no pending issues from the prior examination. Communications between the Company and the Department indicate that all findings have been addressed.

SUMMARY OF SIGNIFICANT FINDINGS

1. The Company is part of a holding company group; however its 2009 Annual Statement filing omitted Schedule Y, Information of Insurer Members of a Holding Company Group; Part 1, Organization Chart and Part 2, Summary of Insurers Transactions with Any Affiliates.

The Company included Part 1 and 2 of Schedule Y in the 2009 amended annual statement, filed on June 10, 2010.

2. Pursuant to Utah Code Annotated (U.C.A.) § 31A-16-105, the Company filed its 2009 Insurance Holding Company System Annual Registration Statement, Form B, but it failed to disclose an Administrative Services and Management Agreement with an affiliate Liberty Risk Services, LLC.

The Company acknowledged by written confirmation that going forward all affiliated agreements will be disclosed in the annual Form B filing.

3. Pursuant to the NAIC Annual Statement Instructions and the Accounting Practices & Procedures Manual Statement of Statutory Accounting Principles (SSAP) No. 25- Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties, the Company is required to disclose all material related party transactions. The Company did not disclose any related party transactions in the 2009 annual statement filing. U.C.A. § 31A-16-106(1)(b)(i)(A) requires the Company to disclose material transactions to the commissioner in writing at least 30 days prior to entering into the transaction, or within any shorter period the commissioner may permit, if the commissioner has not disapproved the transaction within the period.
4. The examination determined that the Company's independent Certified Public

Accountant engages in non-audit related services including preparing the Annual Statement for filing and providing accounting services and training Company personnel. This is in violation of Utah Administrative Code (U.A.C.) Rule R590-254-7(a)(i) and (b)(ii).

During the examination fieldwork, on September 7, 2010, the Company filed for and was granted an exemption by the Department from the U.A.C. R590-254-7(a)(i) and (b)(ii) requirement. The exemption from the requirement expires on March 31, 2011.

5. The Company utilized the services of a reinsurance intermediary that does not have a license as required by law. The Company did not comply with U.C.A. § 31A-23a-804.

SUBSEQUENT EVENTS

The Company's President, Stephen B. Greenfield, terminated his employment with the Company and resigned from the board of directors effective August 17, 2010. The board of directors met on the same day to elect Truman B. Child as the Interim President of the Company.

On August 8, 2010, the Company was notified that Charles Schwab & Company, Inc., the Company's investment custodian, would terminate the custodial agreement after a reasonable period in which the Company would find another custodian. This change was based upon a decision by Charles Schwab & Company that it would no longer provide insurance custodial services.

COMPANY HISTORY

General

The Company was incorporated on May 5, 2004 as a stock corporation in the State of Utah. The Company was licensed as a property and casualty insurer authorized to write workers compensation insurance in Utah and Arizona on October 26, 2004, and November 10, 2009, respectively.

During the examination period the Company amended its Articles of Incorporation, changing the par value of common stock from \$0.001 to \$0.1051941 per share. The amendment increased the Company's capital from \$2,500 to \$1,002,500 as of September 30, 2009. No amendments to the Bylaws were made during this examination period.

Dividends and Capital Contributions

The Company did not schedule or pay any dividends during the examination period. ALIC Holding Company, Inc., the parent, contributed capital of \$100,000 in each of the years 2007 and 2009

Mergers and Acquisitions

There were no mergers or acquisitions during the period of this examination.

CORPORATE RECORDS

The previous examination report as of December 31, 2006, was distributed to the board of directors on January 7, 2008.

A review of the minutes of shareholders, board of directors and committee meetings provided evidence of effective and competent corporate governance.

During the period covered by the examination, directors and officers of the Company completed conflict of interest statements annually.

MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE

The Bylaws state, "The number of directors of the Corporation shall be at least two (2) and no more than twelve (12)." The following persons served as directors of the Company as of December 31, 2009:

<u>Name and Location</u>	<u>Title and Principal Occupation</u>
Truman Boyce Child Provo, Utah	Chief Executive Officer, Treasurer, American Liberty Insurance Company
Stephen Beryle Greenfield Cedar Hills, Utah	President, American Liberty Insurance Company
Gregory Brian Moessing Franklin, Massachusetts	Managing Director, Cambridge Associates LLC
Gary Douglas Smith Sandy, Utah	Executive Vice President, Boyers United, Inc.
Jeffrey Rex Benson Provo, Utah	General Manager, PayDay Resources
Richard Troy Worthington Highland, Utah	President, Alpine Benefits, Inc.

The officers of the Company as of December 31, 2009, were as follows:

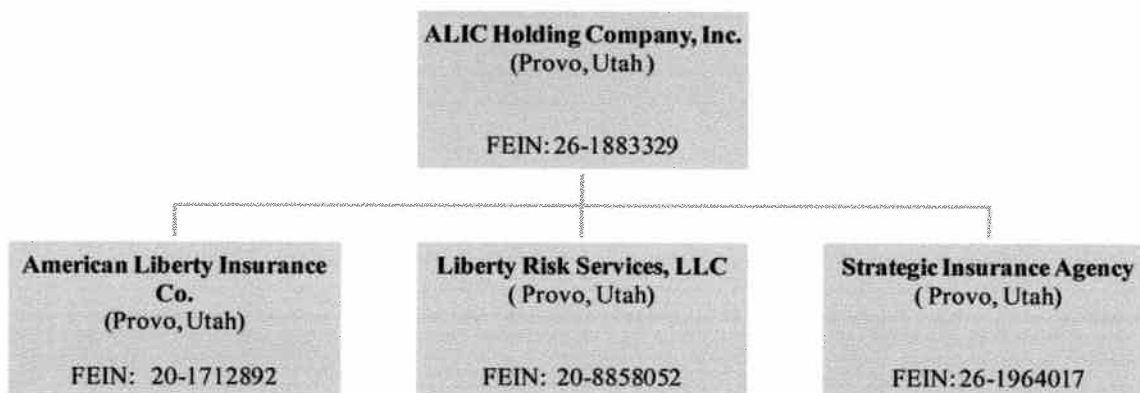
<u>Name</u>	<u>Title</u>
Truman Boyce Child	Chief Executive Officer & Treasurer
Stephen Beryle Greenfield	President
Richard Troy Worthington	Secretary

Committees and the respective committee members of the Company as of December 31, 2009 were as follows:

<u>Audit Committee</u>	<u>Compensation Committee</u>	<u>Investment Committee</u>
Truman Boyce Child	Truman Boyce Child	Truman Boyce Child
Gary Douglas Smith	Gary Douglas Smith	Gary Douglas Smith
Richard Troy Worthington	Richard Troy Worthington	Gregory Brian Moessing
Barry Christensen	Barry Christensen	

Holding Company

The Company is wholly owned by ALIC Holding Company, Inc., which is ultimately controlled by its shareholder, Truman Child, becoming a member of the holding company system on October 28, 2009. An organizational chart illustrating the holding company system follows:



FIDELITY BONDS AND OTHER INSURANCE

The minimum fidelity insurance coverage suggested by the NAIC for the Company's size and premium volume is not less than \$125,000. As of the examination date, December 31, 2009, the Company participated in fidelity insurance coverage of \$1,000,000. The Company also had additional insurance protection against loss from Automobile, Directors and Officers, Errors and Omissions, Business, and Workers Compensation.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Company's retirement program consisted of participation in a 401(k) plan, a voluntary plan that is administered by The Principal Financial Group. Although the Company suspended its matching portion of the plan as of December 31, 2009, the employees may contribute up to the Internal Revenue Service maximum amounts and

select various investment options. The Company contributed \$28,444 to the plan for the year ended December 31, 2009.

Other benefits available to employees included group medical, group dental, vision, short- term disability, long- term disability, basic term life insurance with optional supplemental coverage, and flexible spending accounts.

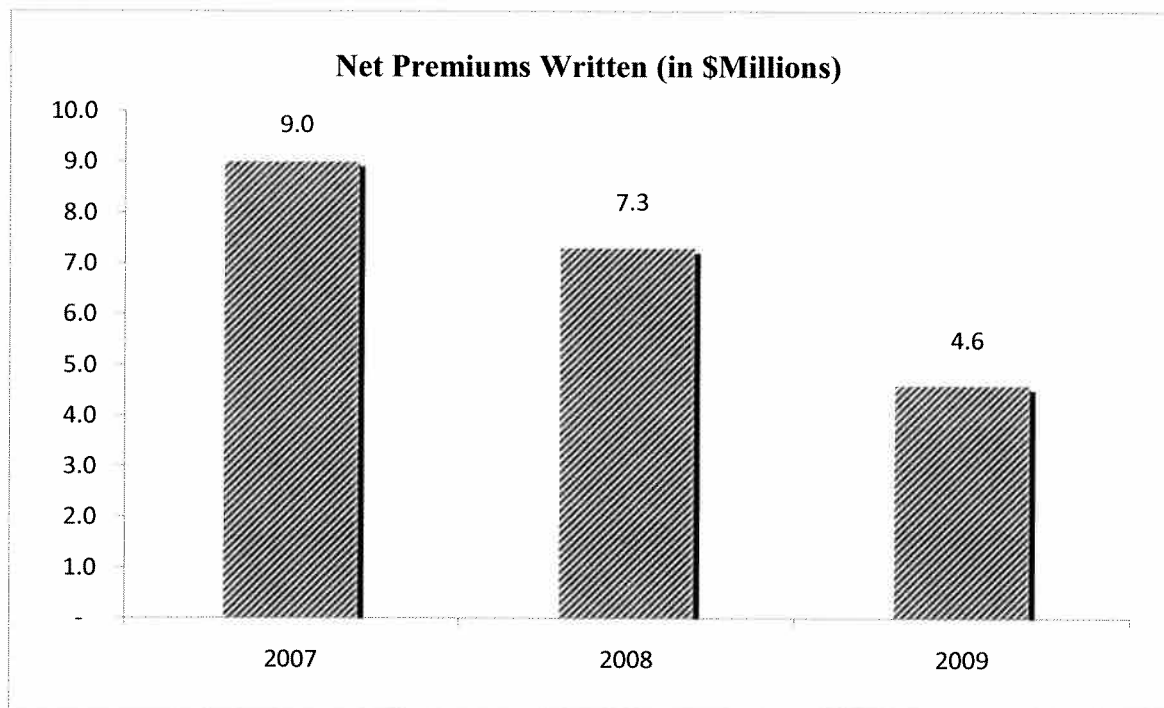
TERRITORY AND PLAN OF OPERATION

The Company is domiciled in the state of Utah with authority to write workers compensation insurance in Utah and Arizona as of October 24, 2004 and November 10, 2009, respectively.

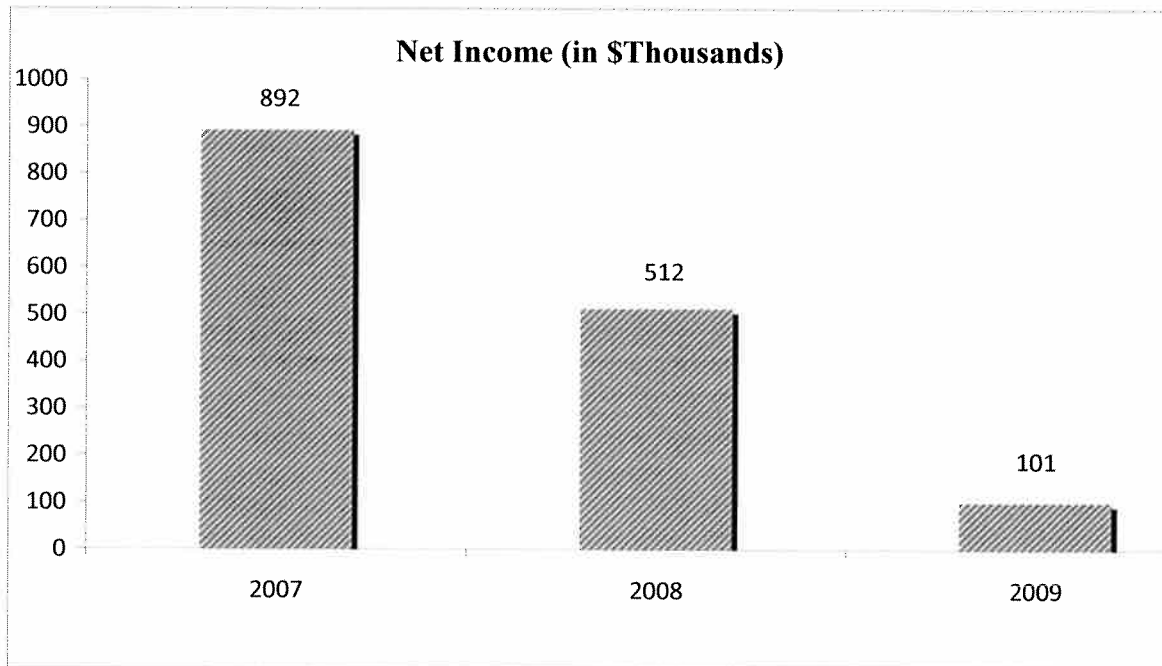
The Company markets its product through payroll companies, professional employer organizations, independent and agency insurance producers, and direct sales. The Company maintains a small sales and telemarketing department and has appointed 9 individual and 44 agency producers. The Company does only a modest amount of advertising consisting of web based content, brochures, and flyers. The purpose of the advertising is to enhance Company name recognition, and to promote policy related service, savings, security and automated payment availability.

GROWTH OF COMPANY

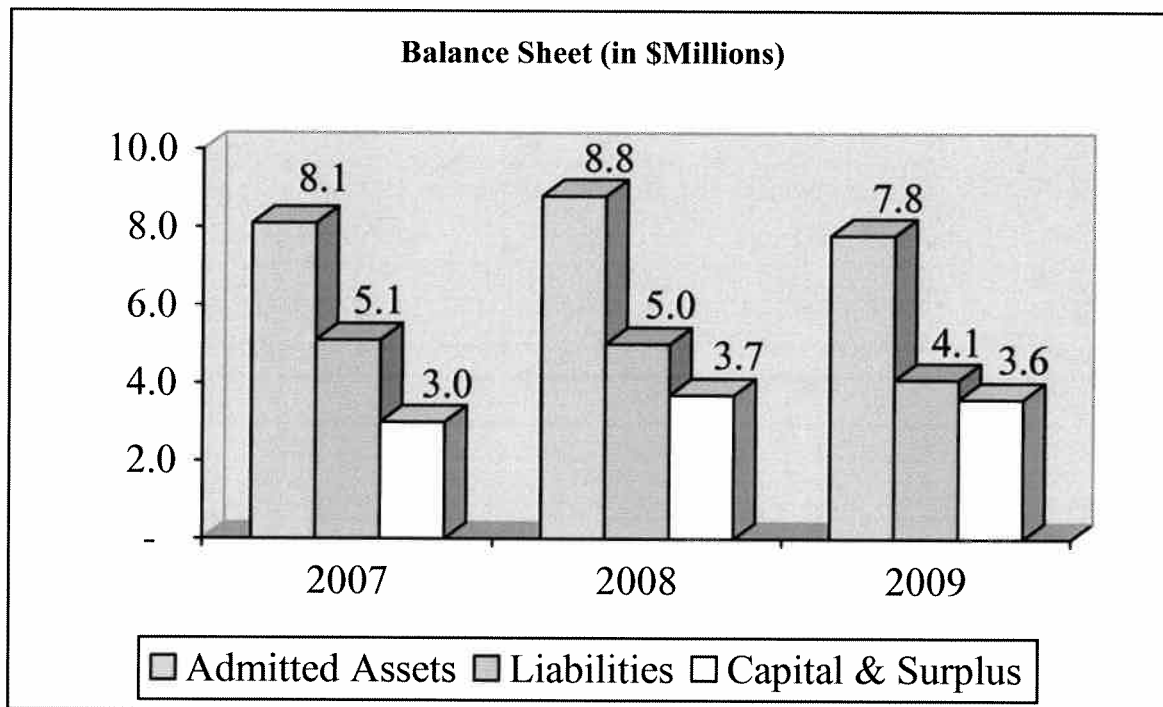
During the period of this examination, net premiums written consistently decreased, reflecting the downturn in the economy beginning in late 2007.



Net income from 2007-2009 has also trended downward, a reflection of the decrease of net premiums written.



Balance sheets show the stability of the capital and surplus and the decrease in liabilities.



LOSS EXPERIENCE

Loss experience was favorable, with net loss and loss expense ratios at or near 50 percent. A high loss ratio shown in Schedule P for the initial accident year 2004 is likely due to immature premium reporting possible with the “Western method” of premium accounting used by the Company. The favorable loss and loss expense ratios are a fortuitous outcome from having few large claims. The Company’s underwriting strategy of moving away from hazardous classes is also a contributing factor. We did not see evidence of inappropriate or inadequate pricing during this examination.

REINSURANCE

The Company has no unsecured reinsurance recoverables. As of December 31, 2009, the Company had reinsurance recoverables in the amount of \$53,399. The Company holds a letter of credit for \$1,406,275 in the Company’s favor for the account of Max Re and an additional claim fund escrow account. The Company has no loss/reinsurance recoverables in dispute.

As of December 31, 2009 the Company retained \$500,000 for each loss or occurrence.

The Company has a 1st layer excess of loss treaty with Midwest Employers Casualty Company (MECC), providing workers compensation coverage of \$9,500,000 in excess of \$500,000, effective through March 31, 2010. MECC also provides employer liability excess of loss coverage of \$1,500,000 in excess of \$500,000 effective through March 31, 2010.

The Company has a 2nd layer excess of loss treaty with three participating reinsurers; Arch Reinsurance Europe Underwriting, Ltd, Max at Lloyd's ApS Denmark, and Underwriters at Lloyd's London providing workers compensation coverage of \$10,000,000 in excess of \$10,000,000 effective through March 31, 2010.

During the period February 1, 2008 through August 10, 2009, the Company participated in a quota share agreement with Max Bermuda, Ltd. ceding 25% of all policies underwritten by the Company. The Company did not renew the coverage.

ACCOUNTS AND RECORDS

The Company’s accounting records are electronically maintained. The Company’s claims are processed and handled by Blue Star Claims Management, LLC and Avizent.

An independent certified public accounting firm, Larson & Rosenberger, LLP, audited the Company’s records during the period covered by this examination. Audit reports generated by the auditors for the years 2007 through 2009 were made available for the examiner’s use.

The Company filed seven annual statement amendments during the period covered by the examination.

The Company was not able to provide Service Level Agreements (SLA) with all of its service providers, including claim service providers with access to proprietary Company data, increasing the risk that adequate service support and delivery are not in place. The Company obtained Service Level Agreements for all of its existing service providers prior to the end of examination fieldwork.

STATUTORY DEPOSITS

The Company's statutory deposit requirement was \$300,000 pursuant to U.C.A. § 31A-5-211(2)(b)vii. As of December 31, 2009, the examination confirmed that the Company adequately maintained the following statutory deposits for the benefit of all policyholders.

State	Description	Purchased	Maturity	Interest	Book Value
Utah	US Treasury Notes	7/2/2007	6/30/2010	2.875%	\$200,678
	US Treasury Notes	6/22/2009	12/31/2010	0.875%	203,782
	US Treasury Bills	5/11/2010	5/6/2010	0.51%	99,830
Arizona	Cash				100,000
Total:					\$604,290

FINANCIAL STATEMENTS

The following financial statements were prepared from the Company's accounting records and the valuations and determination made during the examination. The financial statements were based on the 2009 amended annual statements filed by the Company. The amendment was the result of the Company's external auditor's adjustments found during the audit of the Company's year end 2009 annual statement. The accompanying COMMENTS ON FINANCIAL STATEMENTS are an integral part of the financial statements.

AMERICAN LIBERTY INSURANCE COMPANY
BALANCE SHEET (ASSETS)
as of December 31, 2009

	<u>Net Admitted Assets</u>
Bonds	\$ 3,801,646
Common Stocks	36,800
Mortgage loans on real estate (First Liens)	150,000
Cash and Short-Term Investments	<u>2,785,048</u>
Subtotals cash and invested assets	6,773,494
Investment Income Due and Accrued	26,818
Uncollected Premiums and Agents' Balances	190,531
Amounts Recoverable from Reinsurers	53,399
Other Amounts Receivable Under Reinsurance Contracts	195,569
Current Federal and Foreign Income Tax Recoverable	271,440
Net Deferred Tax Asset	94,291
Electronic data processing equipment and software	44,753
Receivables from parent, subsidiaries and affiliates	119,576
Aggregate Write-Ins for other than invested assets	3,169
Total Assets	<u>\$ 7,773,040</u>

AMERICAN LIBERTY INSURANCE COMPANY
BALANCE SHEET (LIABILITIES, SURPLUS AND OTHER FUNDS)
as of December 31, 2009

	<u>Current Year</u>
LIABILITIES	
Losses	\$ 3,296,941
Loss adjustment expenses	225,620
Other expenses (excluding taxes, licenses and fees)	116,594
Taxes, licenses and fees (excluding federal and foreign income taxes)	(210,535)
Advance premium	296,355
Ceded reinsurance premiums payable	0
Funds held by company under reinsurance treaties	74,635
Amounts withheld or retained by company for account of others	111,832
Payable to parent, subsidiaries and affiliates	20,000
Payable for securities	201,103
Total Liabilities	<u>4,132,545</u>
SURPLUS AND OTHER FUNDS	
Common capital stock	1,002,500
Preferred capital stock	10,000
Gross paid in and contributed surplus	2,159,911
Unassigned funds (surplus)	468,084
Total Capital and Surplus	<u>3,640,495</u>
Total Liabilities, Surplus, and Other Funds	<u>\$ 7,773,040</u>

AMERICAN LIBERTY INSURANCE COMPANY
STATEMENT OF INCOME
for the Year Ended December 31, 2009

	<u>Current Year</u>
UNDERWRITING INCOME	
Premiums earned	\$ 4,455,446
Deduction:	
Losses incurred	1,499,698
Loss adjustment expenses incurred	422,034
Other underwriting expenses incurred	<u>2,839,320</u>
Total underwriting deductions	4,761,052
Net income of protected cells	<u>0</u>
Net underwriting gain (loss)	(305,606)
INVESTMENT INCOME	
Net investment income earned	49,350
Net realized capital gains (losses)	<u>166,081</u>
Net investment gain (loss)	215,431
OTHER INCOME	
Aggregate write-ins for miscellaneous income	<u>279,406</u>
Net income before dividends to policyholders	189,231
Dividends to policyholders	<u>0</u>
Net income after dividends to policyholders	189,231
Federal and foreign income taxes incurred	88,397
Net Income	<u><u>\$ 100,834</u></u>

AMERICAN LIBERTY INSURANCE COMPANY
RECONCILIATION OF CAPITAL AND SURPLUS
2007 through 2009

	<u>2007</u>	<u>2008</u>	<u>Per Exam 2009</u>
Capital and surplus prior reporting year	\$ 1,986,292	\$ 2,990,689	\$ 3,684,474
Net income	891,584	511,922	100,834
Change in net unrealized capital gains (losses)	0	(2,824)	(5,365)
Change in net deferred income tax	0	190,000	(95,709)
Change in non admitted assets	12,813	(5,313)	(143,737)
Paid in	100,000	0	100,000
Change in surplus	1,004,397	693,785	(43,977)
Surplus, December 31, current year	\$ <u>2,990,689</u>	\$ <u>3,684,474</u>	\$ <u>3,640,497</u>

COMMENTS ON FINANCIAL STATEMENTS

There were no adjustments to the financial statements as reported December 31, 2009.

The Company's minimum capital requirement was \$300,000 as specified in U.C.A. § 31A-5-211(2)(b)vii. As of December 31, 2009, the Company reported total adjusted capital of \$3,640,497 and its authorized control level risk based capital requirement of \$1,165,392.

SUMMARY OF RECOMMENDATIONS

1. We recommend the Company make the appropriate disclosures according to the NAIC Annual Statement Instructions, SSAP No. 25 and establish a procedure for determining material related party transactions according to U.C.A. § 31A-16-106(1)(b)(i)(A). (SUMMARY OF SIGNIFICANT FINDINGS)
2. The Company should comply with U.C.A. § 31A-23a-804, by contracting with a licensed reinsurance intermediary and establish the necessary internal controls to prevent engaging in agreements with unlicensed intermediaries in the future. (SUMMARY OF SIGNIFICANT FINDINGS)
3. The Company is required to comply with U.A.C. R590-254-7(a)(i) and (b)(ii). The person performing bookkeeping and Annual Statement preparation should be independent of the CPA engaged to provide auditing services. (SUMMARY OF SIGNIFICANT FINDINGS)
4. Compliance with the filing requirements of U.C.A. § 31A-16-105 for the Insurance Holding Company System Annual Registration Statement- Form B, is recommended. (SUMMARY OF SIGNIFICANT FINDINGS)
5. The Company should implement a procedure for verifying the accuracy of the Annual Statement filings to improve internal controls over financial reporting. (ACCOUNTS AND RECORDS)

ACKNOWLEDGEMENT

R. Michael Lamb, FCAS, MAAA, of the actuarial firm of Michael Lamb LLC performed the actuarial review of the examination. Colette M. Hogan Sawyer, CFE, CPM, PIR, Assistant Chief Examiner, Donald Catmull, CFE, Senior Financial Examiner, jointly supervised the examination representing the Utah Insurance Department. Clarissa Crisp, AFE, APIR, Financial Examiner, participated in the examination. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Company.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read 'Malis Rasmussen', written in a cursive style.

Malis Rasmussen, CFE, PIR
Examiner-in-Charge
Utah Insurance Department